

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NOLIN ELECTRIC)	
COOPERATIVE CORPORATION TO ADJUST)	CASE NO. 94-402
ELECTRIC RATES)	

O R D E R

IT IS ORDERED that Nolin Rural Electric Cooperative Corporation ("Nolin") shall file no later than February 10, 1995 an original and 12 copies of the following information with the Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to page 4 of the Application. Explain how it was determined that Nolin is on a nine year capital credits rotation cycle. Provide supporting calculations.

2. Refer to Exhibit L, Schedule 3, page 2 of 5, of the Application.

a. When were the proceeds from REA Note No. AE6 and National Rural Utilities Cooperative Finance Corporation ("CFC") Note No. 9024 advanced?

b. If these amounts were not outstanding at the end of the test year, explain why the interest expense should be included in any adjustment for interest on long-term debt.

3. Refer to Exhibit L, Schedule 3, pages 2 and 3 of 5, of the Application.

a. Provide the journal entries for the REA and CFC loan advances totalling \$4,972,000. List each obligation which was reduced or satisfied by these advances and the amount of the advance applied to it.

b. (1) Explain how the remainder of the advances will be used.

(2) State when the full amount is expected to be advanced.

(3) Provide supporting documentation for each response.

4. Refer to Exhibit L, Schedule 3, page 3 of 5, of the Application.

a. For each loan with CFC, state the interest rate option (fixed or variable) chosen.

b. For any fixed rate CFC notes, explain what consideration Nolin has given to repricing during the test year.

5. Refer to Exhibit L, Schedule 3, pages 4 and 5 of 5, of the Application.

a. Provide the terms and conditions of Nolin's deferred power bill arrangements with East Kentucky Power Cooperative in effect at the end of the test year.

b. What will happen if Nolin cannot pay the deferred power bill by the required payment date?

6. Refer to Exhibit L, Schedule 3, pages 4 and 5 of 5, of the Application. Why should the interest expense adjustment of \$71,468 be included for rate-making purposes since it is outside of the test year?

7. Refer to Exhibit L, Schedule 5, of the Application. Provide supporting workpapers for the tax on vehicles totalling \$3,422 and the 1993 Assessment for maintenance of Public Service Company totalling \$22,302.

8. Refer to Exhibit L, Schedule 6, of the Application.

a. What does the column "ATTEND" on page 2 of 8 represent?

b. How does Nolin determine which employees receive a bonus and the amount of that bonus?

c. Explain what the column "MISC." on page 6 of 8 represents.

9. Refer to Exhibit L, Schedule 6, pages 3 and 4 of 8, of the Application.

a. Explain why Nolin used 2,088 hours for regular hours worked instead of 2,080 hours.

b. Recompute normalized wages as shown on pages 3 and 4 based on 2,080 regular hours.

10. Refer to Nolin's response to Item 15 of the November 22, 1994 Order. Provide justification for the following total salary and wage increases:

- a. 1991, 15.82%.
- b. 1992, 10.59%.
- c. 1993, 18.32%.

11. Refer to Nolin's response to Item 16 of the November 22, 1994 Order. Provide justification for any wage or salary increase in excess of 5 percent for any employee.

12. Provide all workpapers, calculations and other documentation that support the payroll related taxes adjustment totalling \$7,244 as stated on page 6 of the testimony of John C. Stucky.

13. Refer to Nolin's response to Item 18 of the November 22, 1994 Order. Explain why Christmas Bonuses and Attendance Awards totalling \$26,655 should be recovered from the ratepayers.

14. Provide all union labor contracts in effect during the test year.

15. Refer to Exhibit L, Schedule 7, of the Application.

a. For each National Rural Electric Cooperatives Association ("NRECA") benefit, describe the coverage provided under each policy including eligibility requirements and monthly rates for the plans as of the end of the test year.

b. For the medical insurance, describe the level of coverage provided, including the amounts of employee deductibles,

copayments, and monthly rates in effect at the end of the test year.

c. Provide all materials Nolin provides to its employees concerning its 401(k) plan. State whether all employees are eligible to participate in the 401(k) plan.

d. Describe in detail all changes made in the plans since January 1, 1993. State the reason(s) for such changes.

e. Describe how Nolin procures these types of coverage. If competitive bidding is used, state when the last bids were taken, identify the bidders, the respective bids, and the reason(s) for the selection of the successful bidder. If coverage is not procured through competitive bidding, explain in detail why not.

f. Provide the premium notices for the month of December 1993.

16. Refer to Exhibit L, Schedule 7, page 1 of 5 , of the Application. Has the contribution moratorium on the NRECA Retirement and Security Program been lifted? If yes, when was the moratorium lifted? What is the actual contribution being required of Nolin?

17. Refer to Exhibit L, Schedule 7, page 5 of 5, of the Application. Explain why Nolin includes 4 retirees in its medical plan. State whether the retirees are required to pay any portion of their premiums. If so, what is the required payment and how is it accounted for?

18. Refer to Exhibit L, Schedule 8, of the Application.

a. State the number of employees who have coverage under each type of insurance listed.

b. Describe the coverage of each type of insurance listed.

c. Describe how Nolin procures these types of coverage. If competitive bidding is used, indicate when the last bids were taken, identify the bidders, the respective bids, and the reason(s) for the selection of the successful bidder. If the coverage is not procured through competitive bidding, explain in detail why not.

d. Provide the latest premium statement issued during the test year.

e. Provide a supporting schedule for the \$19,141 adjustment.

19. Refer to the Testimony of Robert C. Wade. Explain why Nolin has obtained short-term loans to pay the deferred power bill and other expenses instead of drawing down the REA or CFC loans.

20. Refer to page 4 of 8 of the Testimony of Michael L. Miller. Provide complete details of the future headquarters and service facilities for which land was purchased. This should include the date of the land purchase, a general description of the proposed facilities, and the estimated cost to construct the facilities.

21. Provide an analysis of all costs incurred in the test year for the future headquarters and service facilities. This

analysis should include the account charged, the amount, and a description of the expense.

22. Provide a copy of the NRECA Facility Study, Human Resources' Study and Compensation Plan referred to on page 4 of Mr. Miller's testimony.

23. Refer to Exhibit D-2, page 6 of 8, of the Application. Explain why Nolin did not amend its application to request additional revenues of \$1,500,000.

24. Refer to pages 5 and 6 of 8 of John C. Stucky's testimony. Mr. Stucky states that the increase in property and payroll-related taxes totals \$22,593. However, in Exhibit L, page 1 of 2, of the Application, the tax adjustment reflects an increase of \$23,427. Explain the discrepancy.

25. Refer to Nolin's response to Item 1 of the November 22, 1994 Order. Provide an income statement and balance sheet in comparative form for the test year and the 12-month period immediately preceding the test year.

26. Refer to Nolin's response to Item 2 of the November 22, 1994 Order. Provide an analysis of Nolin's debt to equity ratio for the test year and the 5 previous calendar years. Provide this analysis for calendar year 1994 when available.

27. Refer to Nolin's response to Item 6 of the November 22, 1994 Order. For each of the accounts listed below, provide a detailed explanation for the change in account activity between the two time periods.

- a. Account No. 367.00 - Underground Conductors and Devices, page 1 of 15.
- b. Account No. 369.00 - Services, page 1 of 15.
- c. Account No. 389.00 - Land and Land Rights, page 2 of 15.
- d. Account No. 391.00 - Furniture and Office Equipment, page 2 of 15.
- e. Account No. 392.00 - Transportation Equipment, page 2 of 15.
- f. Account No. 107.10 - Construction Work in Progress-Contract Labor, page 3 of 15.
- g. Account No. 107.20 - Construction Work in Progress. page 3 of 15.
- h. Account No. 108, in total, - Accumulated Depreciation and Retirement Work in Progress, pages 4 and 5 of 15.
- i. Account No. 131.13 - Cash General Fund-Liberty National Bank & Trust & PNC, page 7 of 15.
- j. Account No. 136.02 - Temporary Cash Investment-CFC, page 8 of 15.
- k. Account No. 142, in total, - Accounts Receivable, pages 8, 9, and 10 of 15.
- l. Account No. 217.00 - Retired Capital Credits-Gain, page 10 of 15.
- m. Account No. 224.30 - Notes Executed, page 10 of 15.
- n. Account No. 226.00 - Unamortized Discount on Long-Term Debt, page 11 of 15.

o. Account No. 231.10 - Notes Payable-Geothermal Loans-EKPC, page 11 of 15.

p. Account No. 236, in total, - Taxes Accrued, page 13 of 15.

q. Account No. 237.20 - Interest Accrued CFC Obligation, page 14 of 15.

r. Account No. 238.10 - Patronage Capital Payable, page 14 of 15.

s. Account No. 241.00, in total, - Taxes, page 14 of 15.

t. Account No. 242.60 - Accrued Outside Services-Audit, page 15 of 15.

u. Account No. 242.80 - Accrued Interest-Consumer Deposit, page 15 of 15.

v. Account No. 252.00 - Consumer Advances for Construction, page 15 of 15.

w. Account No. 253.00 - Other Deferred Credits-Rolling Fork Range, page 15 of 15.

28. Refer to Nolin's response to Item 6 of the November 22, 1994 Order. Provide the following information concerning Account No. 231.10, Notes Payable - Geothermal Loans - EKPC:

a. Describe the terms and conditions of the loan.

b. Provide an itemized list of the use(s) of the proceeds of these loans for the test-year end. Identify the account charged for each item.

c. Provide a reference to the Commission proceeding wherein approval for the loans was granted.

29. Refer to Nolin's response to Item 7 of the November 22, 1994 Order. For each of the accounts listed below, provide a detailed explanation for the change account activity between the two time periods.

a. Account No. 444.00 - Public Street & Highway Lighting, page 1 of 12.

b. Account No. 450.00 - Forfeited Discounts, page 1 of 12.

c. Account No. 451.00 - Miscellaneous Service Revenue, page 1 of 12.

d. Account No. 555.00 - Purchased Power, page 1 of 12.

e. Account No. 586.30, in total, - Meter expense-Tampering, page 3 of 12.

f. Account No. 588.00, Dept 02 - Miscellaneous Distribution expense, page 3 of 12.

g. Account No. 593.00, Dept 02 - Maintenance of Overhead Lines, page 4 of 12.

h. Account No. 594.00, Dept 02 - Maintenance of Underground Lines, page 4 of 12.

i. Account No. 597.00, Dept 02 - Maintenance of Meters, page 4 of 12.

j. Account No. 901.00, Dept 01 - Supervision Customer Accounts Expense, page 5 of 12.

k. Account No. 902.00, Dept 01, 02, and 03 - Meter Reading Expense, page 5 of 12.

l. Account No. 902.10, Dept 01 and 02 - Meter Reading Expense-Yearly, page 5 of 12.

m. Account No. 903.00, Dept 01 - Customer Records and Collection Expense, page 5 of 12.

n. Account No. 910.00, Dept 03 - Miscellaneous Customer Service & Information Expense, page 6 of 12.

o. Account No. 920.00, Dept 01 - Administrative and General Salaries, page 7 of 12.

p. Account No. 921.00, Dept 02 and 03 - Office Supplies and Expenses, page 7 of 12.

q. Account No. 923.00, Dept 02 and 03 - Outside Services Employed, page 7 of 12.

r. Account No. 925.00, Dept 02 - Injuries and Damages, page 7 of 12.

s. Account No. 926.00, Dept 02 - Employees Hospitalization & Benefits, page 8 of 12.

t. Account No. 926.10, Dept 02 - Retirement & Security-Employees Share, page 8 of 12.

u. Account No. 930.20, Dept 01, 02, and 03 - Miscellaneous General expense, page 9 of 12.

v. Account No. 903.21, Dept 01 - Misc Gen Exp-Directors Fees & Mileage, page 9 of 12.

w. Account No. 428.00 - Amortization of Debt Discount and Expense, page 11 of 12.

x. Account No. 423.00 - Generation & Transmission Capital Credits, page 12 of 12.

30. Refer to Nolin's response to Item 9 of the November 22, 1994 Order. Nolin indicated in Case No. 94-357¹ that it is formulating a new equity management plan.

a. Provide the status of the new equity management plan.

b. Provide the date Nolin anticipates implementing the new equity management plan.

c. Why has Nolin not proposed a change in its equity management plan in this case?

d. Provide the estimated impact the new equity management plan will have on Nolin's revenue requirements.

31. Provide the following information concerning member and associated organization capital credits:

a. The outstanding balance of capital credits assigned to Nolin by each associated organization as of test-year end. Include the amount of capital credits assigned from each organization for the last five calendar years.

b. The amount of capital credits paid in cash by each associated organization to Nolin during the test year and the four previous calendar years.

¹ Case No. 94-357, The Application of Nolin Rural Electric Cooperative Corporation for a Deviation from the Settlement Agreement of 10/11/90 in Case No. 90-064.

c. The balance of member capital credits as of test-year end. Indicate the date of the last general retirement of member capital credits.

32. Refer to Nolin's response to Item 10 of the November 22, 1994 Order.

a. Explain how Nolin selected the providers of its legal, engineering, accounting, auditing, and other professional services.

b. State when Nolin retained its current providers of legal, engineering, accounting, auditing, and other professional services. How frequently is the use of these providers reviewed?

33. Refer to Nolin's response to Item 11 of the November 22, 1994 Order.

a. Explain in detail the rationale of providing health insurance coverage to the directors and their eligible dependents, as noted in Part II, Section B.

b. Provide the cost of providing Medical/Hospitalization coverage for Director Dependent(s) for the test year.

34. Refer to Nolin's response to Item 12 of the November 22, 1994 Order. Explain why annual meeting costs have increased approximately 27 percent in the past 5 years.

35. Refer to Nolin's response to Item 19 of the November 22, 1994 Order. Provide the following:

a. A detailed schedule of any expense over \$1,000. The schedule shall include the transaction date, vendor, amount, document reference, and purpose of the advertisement.

b. A breakdown of sales and promotional advertising.

c. An explanation of why promotional and institutional advertising should be included for rate-making purposes given 807 KAR 5:016, Section 4.

d. An explanation of why Annual Meeting Expense is recorded as a deferred debit.

36. Refer to Nolin's response to Item 20, page 1 of 16, of the November 22, 1994 Order.

a. Describe the service represented by the entry "computer charges."

b. The name(s) of the company(s) which provided these services.

37. Refer to Nolin's response to Item 20, page 1 of 16, of the November 22, 1994 Order. Reconcile the following expenses as shown on page 1 of 16 with the supporting documentation as shown on pages 2 through 16 of 16.

a. Miscellaneous, totalling \$5,362.89

b. Meetings and Conferences, totalling \$7,495.33

c. Labor, totalling, \$4,606.51

d. Directors' Fees and Expenses, totalling, \$45,054.67

38. Refer to Nolin's response to Item 20, pages 4 through 12 of 16, of the November 22, 1994 Order. Explain why the following expenses have not been excluded for rate-making purposes:

- a. Donation to "AUSA" - year 1 of 3 year pledge
- b. Purchase of flowers
- c. Purchase of fruit baskets
- d. Christmas cards
- e. Christmas lunch for employees
- f. Supplies for Christmas sign
- g. Donation to Kentucky Sheriff's Boys & Girls Ranch
- h. Donation to Lions-Magnolia
- i. Christmas in Park

39. Refer to Nolin's response to Item 20, pages 4 through 12 of 16, of the November 22, 1994 Order. Describe the purpose of each of the following:

- a. Photo of Georgia Storm Damage
- b. Storm Compensation - GC
- c. Royalty Printing Company
- d. "LCNI"
- e. R.L. Polk & Co - Book & Listings
- f. Meeting - "MIP School"
- g. Subscription - How They Spend Our Money
- h. New Member Surveys
- i. Kentucky State Poster Kits
- j. Employee Physicals
- k. Elizabethtown - Hardin Co Chamber - Tuition

40. Reconcile Directors' Fees and Expenses totalling \$45,054.67 as shown on page 1 of 16 of Item 20 of Nolin's response

to the November 22, 1994 Order with the \$42,860.46 total shown on page 1 of 7 of Item 22 of the same response.

41. Refer to Nolin's response to Item 22 of the November 22, 1994 Order. Explain the rationale for providing life insurance to Nolin's Directors.

42. Refer to page 2 of 7 of Nolin's response to Item 22 of the November 22, 1994 Order. Explain why Nolin paid Robert C. Wade \$125 per day for conference attendance.

43. Refer to Nolin's response to Item 22 of the November 22, 1994 Order. State whether all of the directors have family hospitalization plans. If so, provide the costs of an individual plan for these directors.

44. Refer to page 2 of 4 of Nolin's response to Item 23 of the November 22, 1994 Order. Why is Nolin paying a health insurance premium to East Kentucky Power?

45. Refer to page 3 of 4 Nolin's response to Item 23 of the November 22, 1994 Order. How frequently has Nolin performed a "Study of Distribution Plant Depreciation Rates"?

46. Refer to Exhibit L, Schedule 2, of the Application. For all rate schedules, provide workpapers to show the derivation of the power usage and dollar amounts. In the alternative, show a comparison to the filing of East Kentucky Power Cooperative, Inc. in Case No. 94-336 and reconcile any differences in kilowatts, kilowatt hours or dollars.

47. Refer to Exhibit L, Page 2 of 2, of the Application. Provide workpapers to show the derivation of the (\$1,603,814) shown in Column (2), Purchased Power.

48. Refer to Nolin's depreciation study, "Report on Analysis of Distribution Plant in Service," provided in Exhibit L, Schedule 4, of Nolin's application. Wherever possible, numerical data requested in the following questions should be provided on a computer disk, preferably a 3.5 inch floppy disk, in a Lotus for DOS file or an ASCII delimited or similar format which can be readily imported into Lotus.

a. At page 2, the report states that "Nolin does not maintain salvage information at the distribution plant account level, but in total." This failure required an allocation of salvage to the various plant accounts. Does Nolin maintain retirement data at the plant account level? If no, was an allocation of retirement data also necessary?

b. At page 4, the report indicates that the life analysis method used is the Simulated Plant Record method, which uses the total yearly additions, retirements, and ending balances to provide estimates of the age distribution of an account based on the known dispersion factors of the Iowa Curves. Provide the yearly additions, retirements, and ending balances for each account analyzed in this fashion in the depreciation study.

c. Does Nolin intend to maintain aged data to avoid the need for simulating this data?

d. Worksheet III in Attachment 1 contains a report showing the conformance data to the various Iowa Curves for Account 364, Poles, Towers, and Fixtures. Provide this report for each plant account.

e. At page 10, the report indicates that retirements can occur ". . .much earlier than expected if the consumer changes their desired method of service (i.e. they switch from electric to natural gas)." Has it been Nolin's experience that customers who switch to natural gas also disconnect their electric service?

f. At page 14, the report indicates that Nolin maintains its accumulated provision for depreciation in one account, rather than at the plant account level. Nolin's depreciation consultants have recommended that accumulated depreciation be maintained at the individual distribution plant account level to facilitate the monitoring process. Does Nolin intend to implement this recommendation?

g. Appendix B of the report contains detailed calculation worksheets by account which are titled "Calculation of the CAD and CADR Using the SL-AL-RL-BG Model." Explain the meaning of "BG."

h. Provide the data in Appendix B of the report on computer disks in the format described above.

Done at Frankfort, Kentucky, this 27th day of January, 1995.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director